



KRS MEMBER NEWS

Kentucky Employees Retirement System • County Employees Retirement System • State Police Retirement System

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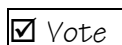
APRIL 2003

KRS Briefs

NOTICE 2003 Raise to Recipients

Retired members and beneficiaries who are drawing a benefit as of June 2003 will receive a 1.6% increase on their July retirement allowance. The increase will be given automatically.

Cost of living adjustments are based on the percentage increase in the annual average of the Consumer Price Index for all urban consumers and applied to benefits each July.



SPRS Election Results

Randy J. Overstreet was re-elected to the Board of Trustees by members of the State Police Retirement System (SPRS). Mr. Overstreet is a retired Captain with the Kentucky State Police and the former Commander of Post 4, Elizabethtown. He is serving his third four-year term as State Police Retirement System member of the Board of Trustees. He is the current Chair of the Board and also serves on the Investment, Health Insurance Review, Legislative, and Personnel Committees.

Out of 1,936 SPRS members, 582 voted in the election.



KRS Board of Trustees News

Randy J. Overstreet was re-elected as Chair of the Board of Trustees at the April 4, 2003 meeting. Walter Pagan was re-elected Vice-Chair. Mr. Pagan is one of three trustees appointed by the Governor. His term ends March 31, 2004.

In other Board news, Governor Paul Patton reappointed Larry C. Conner to a four-year term ending March 31, 2007. Mr. Conner is Director, Division of Personnel Services, Department of Education.

Questions About Your Account?

Contact the KRS Call Center and speak directly with a retirement counselor by calling:

564-4646

1-800-928-4646

(if inside local calling area) **-OR-** (if outside the local calling area)



Retirement Legislation

2003 General Assembly

By Bill Hanes, Executive Director

Members of the 2003 General Assembly were faced with the difficult task of addressing several issues important to public employees in the midst of one of the most severe budget shortfalls in state history. Despite the overriding budget concerns, I am very pleased to let you know that the House of Representatives and the Senate overwhelmingly passed House Bill 461. Many of the provisions of HB 461 allow the retirement systems to comply with recommended changes made by outside counsel to ensure the systems are in compliance with federal law.

I would especially like to thank Representatives Joe Barrows and Jeff Hoover for being the principal sponsors of HB 461 and for their efforts in moving the bill through the House. I would also like to extend my sincere gratitude to Senator Robert Stivers for his assistance in moving the bill through the Senate, and to staff members at the Legislative Research Commission (LRC) and within the leadership who played an important role in passing this bill. In total, 95 representatives and 32 senators voted in favor of HB 461.

I would also like to thank Representative Charles Geveden, Chairman of the House State Government Committee, and Senator Albert Robinson, Chairman of the Senate State and Local Government Committee. Their continued work to assist the Board and members of Kentucky Retirement Systems on retirement issues has proven invaluable in this legislative session and in the past.

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For your convenience, an overview of the changes enacted by the 2003 General Assembly is provided below.

State University Service

HB 461 made one change related to the purchase of state university service.

Effective April 1, 2003, members will no longer be able to purchase service with a state-supported university if they participated in a defined benefit or defined contribution plan during the period of employment.

The purchase of State University service is limited to the University of Kentucky and the University of Louisville since all other state-supported universities currently participate in KERS.

Purchasing Service By Installment Payments

Many members choose to purchase service credit by making monthly payments to the retirement systems through either a before tax or after tax installment purchase agreement.

HB 461 contained provisions allowing members and their beneficiaries to payoff installment purchase agreements upon death or termination of employment.

Upon termination of employment or death, the member or beneficiary will be given 60 days from termination or death to payoff the remaining balance of the installment agreement. If the member or beneficiary chooses not to payoff the contract, the member's account will only be credited with the amount of service purchased by installments through the termination date.

Members planning to retire will also be given 60 days from termination to payoff an installment purchase agreement. However, no payment for the remaining balance of the contract can be received after the member's effective retirement date.

Example: John Doe has an installment purchase agreement and is planning to terminate employment July 31, 2003. He chooses to payoff the remaining balance on the contract and does so on August 10, 2003. Therefore, his effective retirement date will be September 1, 2003.

Minimum Distribution Requirements

HB 461 also contained provisions for the retirement systems to comply with minimum distribution requirements provided under federal tax law. Under minimum distribution requirements, members who are no longer working for a participating KRS employer must begin drawing benefits or withdraw contributions soon after reaching age 70 ½.

If you are age 65 or older and no longer contributing to one of the retirement systems, you may wish to begin planning for withdrawal or retirement in order to avoid any applicable penalties. If you are age 70 ½ or older and no longer contributing to one of the retirement systems, please contact KRS immediately for the appropriate forms to apply for retirement or a refund to avoid substantial and recurring federal tax penalties.

These federal laws also require the beneficiary of an active or retired member to begin benefits or take a refund soon after the member's death. Beneficiaries should contact KRS soon after the member's death to begin benefits or take a refund in order to avoid any applicable penalties.

New Service Purchase

If you retired and returned to work with a participating agency prior to August 1, 1998, you may be eligible to purchase the period of reemployment. The House State Government Committee, chaired by Representative Charles Geveden, attached a committee substitute to HB 461 that allows members to purchase the period of reemployment if the following conditions are met:

1. You retired from one (1) of the retirement systems administered by the KRS and were reemployed prior to August 1, 1998 in a regular full-time position, earning less than the maximum permissible earnings under the Federal Social Security Act;
2. You elected to participate in a second retirement account effective August 1, 1998;
3. You have at least forty-eight (48) months of service if age sixty-five (65) or older, or at least sixty (60) months of service if under age sixty-five (65), in a second account in the systems administered by Kentucky Retirement Systems.

The service purchased for the period of reemployment cannot be used to determine insurance benefits upon retirement.

School Board Service Credit

Senator Vernie McGaha from Russell Springs introduced an amendment related to service credit for school board employees who have missed work due to weather, illness, or other emergencies. The legislation provides that if a school board elects to lengthen the number of hours in the school day in order to make up for missed instructional time, the additional time worked by employees shall be counted as additional days worked in determining service credit for fiscal year 2002-2003.

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Insurance Benefits For New Employees

Under the provisions of HB 430, **employees hired July 1, 2003 or after** will be required to earn at least 120 months of service credit before they will be eligible for insurance benefits at retirement. The percentage of the monthly insurance contribution paid for employees hired after July 1, 2003 is provided in the table below.

Insurance Benefits for New Employees (Hired July 1, 2003 or After)	
Months of Service Credit at Retirement	% of Monthly Contribution Paid
0-119 months	0%
120-179 months	50%
180-239 months	75%
240 months or more	100%

The 120 month service requirement will be waived if the employee is disabled in the line of duty or killed in the line of duty. The provisions of the bill also allow the General Assembly to alter the level of insurance benefits for employees hired after July 1, 2003.

Retired members or members who currently have service credit in KERS, CERS, or SPRS will not be effected by this legislation.

Death Before Retirement

Naming a Beneficiary

Prior to retirement, a member may name a Principal and Contingent Beneficiary for their retirement account by filing a Form 2035, Beneficiary Designation with the retirement office. The principal beneficiary will receive benefits in the event of the member's death. The contingent beneficiary will receive benefits in the event of the member's death ONLY if all of the named principal beneficiaries are deceased. A beneficiary may be one or more individuals, the member's estate, or trust.

Prior to retirement a member can change their beneficiary designation at any time by completing a new Form 2035.

Will My Beneficiary Receive a Monthly Benefit?

The beneficiary of a deceased member will be **eligible for a monthly** benefit if the member was:

- Eligible for Normal or Early Retirement at the time of death or;
- Under the age of 55 with at least 60 months of service credit and currently working for a participating agency at the time of death or;

- No longer working for a participating agency but at the time of death had at least 144 months of service credit.

Payment Options Available to Beneficiaries

If your beneficiary is **eligible for a monthly benefit**, they may select from the following payment options:

- A lump sum actuarial refund or;
- A monthly payment for 5 years or;
- A monthly payment for 10 years.

If the beneficiary is one person, the individual may choose from one of the three options listed above or may choose a *lifetime monthly benefit*.

If the beneficiary is **not eligible for a monthly** benefit, the beneficiary will receive a lump sum payment of the member's contributions and any accumulated interest.

Death In the Line of Duty

If a member dies as a result of a *duty-related injury* or act of violence related to their job and has participated at least one month, the member's spouse and dependents may be eligible for special benefits.

Death After Retirement

At the time of retirement, the member may name ONLY ONE PERSON, their estate, or a trust as beneficiary of the monthly retirement allowance. The retired member may not change this designation once the first retirement allowance has been issued from the State Treasurer. If the beneficiary dies or divorces the member, state law provides that the member's estate becomes the beneficiary. An estate or trust cannot be eligible for a lifetime payment upon the death of a retired member.

Regardless of the beneficiary designated at retirement, the choice of payment option selected by the member will determine the monthly benefits provided to the beneficiary upon the member's death.

\$5,000 Death Benefit

If the member is receiving a monthly payment based on at least 48 months of service credit with KRS, the retirement system will also send a \$5,000 death benefit payment to the beneficiary specifically named for this benefit. A retired member can change the beneficiary for this benefit at any time by completing and filing a new Form 6030, Death Benefit Designation with the retirement office.

Taxes On the \$5,000 Death Benefit

The \$5,000 death benefit is not a life insurance policy.

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This means the beneficiary will be liable for federal income taxes in the year the benefit is paid.

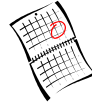
If the beneficiary of the death benefit is the member's spouse, KRS is required under IRS regulations to withhold 20% for Federal Income Tax at the time of payment. The spouse may avoid the required 20% withholding and any other applicable taxes by rolling the funds into a traditional IRA or another qualified retirement plan.

If the beneficiary is someone other than the member's spouse, KRS is required to withhold 10% for Federal Income Tax unless the beneficiary elects not to have the withholding apply. Beneficiaries other than the member's spouse are not eligible to roll these funds into a traditional IRA or another qualified retirement plan.

Interest Paid On Accounts

For the year ending June 30, 2004, the Board of Trustees has approved a 2.5% interest rate to be paid on member accounts. The interest is paid on the balance the member had at the end of the preceding fiscal year.

Retiring This Summer?



Most members choose to retire during the four-month period of June to September known as the "Summer Crunch." If you are planning to retire during this period and would like to make an appointment with a retirement counselor to complete the necessary paperwork, please remember to schedule your appointment in advance. The retirement office allows you to schedule your appointment up to three months prior to your appointment date. If you would like to schedule an appointment, please contact the KRS Employed Call Center at 1-800-928-4646 extension 4522.

DID YOU KNOW?

You can generate individual retirement estimates online by going to our web site at www.kyret.com and selecting "Online Estimator".



www.kyret.com

KENTUCKY RETIREMENT SYSTEMS
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FRANKFORT KY 40601